NOMINET

Chair's Update

ANDY GREEN CBE

CHAIR OF THE BOARD OF DIRECTORS

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DEAR FELLOW NOMINET MEMBERS,

When I was appointed as Chair of Nominet on 21st July I wrote to you about what I hoped to achieve at Nominet and specifically about a series of strategic reviews that the Board had agreed to undertake. I want to use this report to update you on progress on these reviews. The same material will make up the bulk of my forward looking statement in this year's annual report.

Before I start it is important to understand that this is very much an interim report. Many things will evolve. We are only at the start of our interactions with the UK Registry Advisory Council and are now recruiting a new CEO who will bring valuable new insights. Nevertheless, following many interactions with members, ongoing feedback from the Listening Process, and with the support of the Nominet team, the Board is in a position to take a number of decisions and commitments to shape the future direction of Nominet.

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Purpose and Operating Principles

We must be clear about the fundamentals of our organisation, our focus and what will guide our decision-making as a public benefit company. As we move forward, we have adopted the following interim vision:-

'To be a force for good in the UK digital economy and the global internet community, with the .UK registry at the centre of our work, delivering services that make our world more connected, inclusive and secure.'

AND THE FOLLOWING INTERIM MISSION:

'To provide a world class .UK namespace that the UK can rely on; operate critical national infrastructure that is safe, secure and resilient; and protect public services from cyber threat.'

We have also set out interim Operating Principles that will guide our work as we move forward. They are listed out in the table on the next page. As a suite, they will ensure the company is focused on delivering a positive contribution to the wider world. Purpose is placed above profit. We are committed to running an efficient company without compromising our ability to run critical infrastructure and deliver a service of the highest quality. And we are committed to a more open and collaborative relationship with members. In all of these matters we have reviewed what we do, identified where we can do better and committed to necessary corrective action.

When appointed, a new CEO will lead a more fulsome exercise on the vision, mission and the operating principles to ensure that they are appropriate and give the organisation, members and customers a shared understanding of purpose related matters. In the meantime, I welcome members' views on these important building blocks for the new Nominet. Please do share your views on the vision, mission and operating principles with us.

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Operating Principles

PURPOSE

As a public benefit company we are driven by making our world more connected, inclusive and secure. We will only commit resources to activities that further our purpose.

AIMS

We are here to contribute to the digital economy. We want to evolve and grow to ensure we offer world-class services and stay competitive, but our aim is not to maximise the revenues or profits of the .UK registry.

RESPONSIBILITY

We are committed to running the .UK registry in the public interest, considering our members, customers, Government stakeholders and those who rely on our services.

TRANSPARENCY

We will be open and honest with members, sharing the information they need to play their part in the governance of the organisation. We will present members with a clear rationale for key decisions.

OPERATING MODEL

We aim to run an efficient business, managing costs but generating a surplus that is invested back into developing or improving our service provision or public benefit activities that further our purpose.

QUALITY

We aim to provide excellent services to all our customers. We will ensure .UK is and remains a flagship and responsible registry; being proactive to ensure it is trusted, reliable and safe.

PRICING

We will offer a world class service, while ensuring we run efficiently so our prices will remain competitive and accessible to all.

FAIRNESS

The size of your domain business will not be a barrier to participation in activities to register or promote .UK domains. Published wholesale prices will be transparent and accessible to all members on equitable terms.

INNOVATION

We will seek ways to improve the services we deliver, so that we can continue to meet stakeholder expectations. Future new business areas will be discussed with members.

REMUNERATION

Our purpose, KPIs and rewards will align. We aim to attract and retain the talent we need at reasonable cost.

DIVERSITY

We value diversity and inclusiveness in our workforce, leadership and Board and will seek to increase ways to hear different perspectives.

CONDUCT

Everyone will be treated with courtesy and respect at all times.

ENVIRONMENT

We are carbon neutral and will continue to work to reduce the impact of our business on the environment.

RISK

The Board will take a responsible approach to risk - setting appropriate levels that will foster development and innovation.

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Board Commitments

PUBLIC BENEFIT AT NOMINET

Your Board is committed over the next three years to spending £5m per annum on public benefit activities from our operating surplus and a further £50m from Nominet's financial reserves.

RESERVES

Your Board intends to reduce the reserves to c£50m over the next three years.

COST EFFICIENCY AND PRICING

Your Board is committed to running Nominet efficiently and to fair pricing.

Your Board will freeze the annual wholesale price of a domain until at least 2024.

NON .UK SERVICES

Your Board has decided not to continue with the strategy of building a portfolio of complementary cyber businesses and has therefore started a process to sell CyGlass.

NOMINET'S CYBER SERVICES

Your Board is committed to the Nominet protective DNS (PDNS) service and supports a plan to make the business profitable in FY24.

REGISTRY SERVICES BUSINESS

Your Board intends to continue with the Registry Services business.

REMUNERATION POLICY

Your Board, led by Remuneration Committee Chair Eva Lindqvist, will publish a Remuneration Policy Statement annually and also a Remuneration Report that clearly sets out how the policy has been implemented in that year.

MEMBER ENGAGEMENT AND TRANSPARENCY

Your Board is committed to sharing information and sharing the rationale for key strategy decisions with members so that they can perform their role in governance.

GOVERNANCE

Your Board intends to adopt the Wates Principles on Corporate Governance.

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Public Benefit at Nominet

Nominet exists for the Public Benefit. Public Benefit is not just about our contributions to good causes. Our services, not least our infrastructure supporting millions of organisations, forms a large part of the positive contribution we make to the wider world. In addition to our core operations, we look to contribute in four ways:

- Working with our Members to deliver Public Benefit
- Supporting the Digital Economy
- Contributing to the Internet Community
- Measurable Social Impact

Your Board is committed over the next three years to spending £5m per annum on public benefit activities from our operating surplus.

Why this amount? We have heard members' concerns about the decline in Public Benefit spending. This commitment restores funding to the higher levels of previous years. And we are confident that we can spend this amount and more wisely in support of projects that help society, the digital economy and ensure we play our part in the internet community.

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PUBLIC BENEFIT COMPANY

CONNECTED | INCLUSIVE | SECURE

Operating in the public interest underpins all our activities

TRUSTED .UK REGISTRY

Relied on by millions of businesses

Resolving disputes and tackling online crime

CRITICAL NATIONAL INFRASTRUCTURE OPERATOR

Safe, secure, resilient infrastructure

Underpins .UK Registry and Government services

PROTECTING PUBLIC SERVICES

900+ Government organisations (6m users)

Critical part of NCSC's Active Cyber Defence programme

WORKING WITH OUR MEMBERS TO DELIVER PUBLIC BENEFIT

Working on the issues and with the charities aligned to Nominet's purpose that our members care about

Members GiveHub

SUPPORTING THE DIGITAL ECONOMY

Ensuring everyone has the skills needed to be part of a society that is digital by default

Contributing to sector and building a workplace that values diversity

CONTRIBUTING TO THE INTERNET COMMUNITY

Working with our stakeholders in the UK and internationally

Stepping up and playing our part in the relevant technical and policy fora

Supporting standards development

Playing our part to ensure the internet is safe and secure

MEASURABLE SOCIAL IMPACT

Our One Million Lives programme to help a million young people a year tackles the challenges of growing up in a complex digital world

This covers access to essential digital services, digital access, digital skills and careers, internet safety for all and protection from online harms

Reserves

Nominet has built up substantial reserves over the last seven years, in part to fund an acquisition strategy that is no longer in play. Some of that has come from contributions from operations but c£50m is as a result of a very successful investment strategy that has been overseen by the Investment Committee of the Board. However, reserves currently stand at over £110m - a level that is too high for a company driven by a commitment to public benefit.

Your Board intends to reduce the reserves to c£50m over the next three years.

Why this level? This is a first step, reducing our reserves significantly but prudently. Our initial work indicates that this level will insulate customers from any sudden impact from volume changes, give confidence to Public Benefit partners and ensure that we are able to take all reasonable steps to protect the Critical National Infrastructure that we are responsible for from emerging threats and technological change.

Deciding what to do with over £60m of surplus reserves to ensure we maximise the impact we have is a significant responsibility. More than £10m of it is needed to finish important network and systems modernisation work to ensure that Nominet's core registry service remains world class and secure against increasing cyber security threats. We have already committed to spend £25m on new Public Benefit activity and will add up to a further £25m from reserves (recognising that market conditions will affect the final amount), making a total of c£50m over the next three years. This spend is in addition to the £5m from operating surplus that the Board committed to above.

We have more work to do to decide at how best to utilise for the public benefit the additional reserve funds and will keep members informed as we progress. In recognition of this increased public benefit spend, we will establish a new Public Benefit Board sub-committee including both elected and appointed non-executive directors with input from experienced external advisors.

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Cost Efficiency and Pricing

Your Board is committed to running Nominet efficiently and to fair pricing.

I am pleased to see so many members taking part in this year's promotions which are an important way to keep .UK attractive and competitive.

Nominet's core technology and operating systems require investment over the coming years, not least to reduce manual activities which reduce quality and increase costs. As explained above, some of the surplus reserves will be invested in this area which will reduce the long-term cost base. After this period of investment, the resulting efficiencies should help to protect customers from price increases or allow reductions, assuming business volumes and cyber threats are at expected levels and inflation does not increase significantly.

At today's cost base and having committed to at c£5m per annum Public Benefit spend, Nominet is forecast to generate modest surpluses over the next few years. Your Board considered an immediate price reduction but given the uncertainty of the current economic climate and inflationary pressures, concluded that a commitment to continue to freeze prices to the end of calendar year 2023 was a more prudent approach. Pricing will be reassessed at the end of this period.

Your Board will freeze the annual wholesale price of a domain until at least 2024.

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Non .UK services

We have made some progress with reviewing non .UK services.

Going forward your Board is committed to ensuring that all non .UK services contribute to reducing the overall cost of running the core registry.

Any non .UK services will be strictly run to ensure reasonable paybacks; that they have a high chance of reducing the overall cost of running the core registry; and they fit with our vision and purpose.

While none is planned, in future members will be given clear visibility of any major new proposed diversification.

Turning to each of our current non .UK businesses in turn:

CYGLASS

Your Board has decided not to continue with the strategy of building a portfolio of complementary cyber businesses and has therefore started a process to sell CyGlass.

Why? The strategy clearly does not have the support of members, is furthest away from the registry business and would have needed very significant financial resources to complete.

The pandemic has slowed business development, although a strong pipeline now exists. Nominet's first six monthly accounts will be published in December. In those you will see that the losses - which are expected in a start up business - are approximately £2.2m for the period. This is at a similar run rate to the funding required for CyGlass in FY21.

The sale process is complex and, as is normal, uncertain. For that reason, we will not give any further details on CyGlass, except the information that is provided in the FY21 Report & Accounts (published later this month), until the sale process is concluded. At that point we will give an estimate of the total financial impact on Nominet.

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Nominet's Cyber Services

Your Board is committed to the Nominet Protective DNS (PDNS) service and supports a plan to make the business profitable in FY24.

Why? Nominet's cyber services use DNS technology to protect vital public services. Over 900 public sector organisations and over 1000 health and social care organisations benefit from the PDNS service we provide for the National Cyber Security Centre (NCSC). In response to the Covid-19 pandemic, the service was extended to prevent disruption to NHS and private sector organisations deemed critical to vaccine production and distribution.

PDNS is an innovation jointly developed with the NCSC. NCSC and the department responsible for our regulation (DCMS) have stated that they view PDNS as Critical National Infrastructure alongside our core registry service.

PDNS has demonstrated its efficacy during high profile cyber-attacks. Current customers include the UK and Australian Governments. Nominet also provides key DNS services to the UK Public Services Network (PSN). The services we provide are valued by our customers and enable us to retain a high level of cyber expertise that also supports the core registry.

Individual contracts contribute positively but continuing development costs are not being covered. In the six monthly accounts in December, you will see that losses for the period were approximately £1m. A clear opportunity exists to make a significant contribution to Nominet as the business grows.

Your Board intends that the total further costs incurred before break-even (including this financial year) will not exceed £5m.

There is risk in achieving this plan, but this must be set against the significant financial and reputational costs of trying to exit contracts early.

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Registry Services business

Your Board intends to continue with the Registry Services business.

Why? This relatively small business contributes positively to Nominet's overheads and helps keep the team abreast of developments in the global registry space. There is a number of interesting development opportunities as the TLD environment evolves.

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Remuneration Policy

On my appointment, I spoke to you about the need for Nominet to have a strong team, at a reasonable cost.

Nominet is an important part of the critical national infrastructure. The businesses of registrants, and many public services depend on Nominet running smoothly 100% of the time. It has complex global networks and systems and a very varied group of stakeholders.

We need to attract a CEO who can inspire the confidence of members and employees and has strong operational capability. We will need someone happy to put purpose above profit and revenue growth but nevertheless with the experience to manage an important business undergoing a significant technical transformation.

The steps we have taken will ensure the package received by an incoming CEO will be significantly less than in prior years. We have removed the Long Term Incentive scheme, a mis-step that the Board has corrected. For the record, my own remuneration at £90k pa is lower than the preceding Chair's.

Under the CEO, we need to attract and retain skilled technical and operational teams. With the recruitment of Eva Lindqvist as Chair of the Remuneration Committee we have someone with the experience to steer remuneration going forward, ensuring it reflects our focus on our role supporting a thriving digital economy.

Eva's work has included reviewing the salary levels, which moving forward will use membership organisations and similar sized tech companies as its benchmark.

Alongside the annual report we will publish our first ever Remuneration Policy Statement.

Your Board, led by Remuneration Committee Chair Eva Lindqvist, will publish a Remuneration Policy Statement annually and also a Remuneration Report that clearly sets out how the policy has been implemented in that year.

In future years this will form part of the annual report. It will include the normal disclosures on pay, bonus, any other rewards and the targets used to assess performance.

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Member Engagement and Transparency

I hope that in reading this short Chair's statement and our other communications you can begin to see us respond to members' demand for greater transparency and explanation of the Nominet Board's decisions.

Your Board is committed to sharing information and sharing the rationale for key strategy decisions with members so that they can perform their role in governance.

Much has been done to increase dialogue between members and the organisation already, with the formation of the UKRAC and GiveHub responding to members' requests for a greater say in decision-making, alongside the vital role our elected non-executive directors play in bringing essential industry perspectives directly into the Boardroom.

While not complete at the time of writing, the feedback from the Listening Process has been valuable and has informed the commitments outlined in this statement.

The Nominet team, advised by the UKRAC, is working on the launch of a new member community – a replacement for the forum that means members can work with each other, and with us, more effectively. The team will update you shortly on launch plans.

In addition to the annual report presented at the AGM, the company will provide members with a half-yearly performance report.

We will also launch a new technical collaboration group to inform us of the changes to our systems and technology that members would value.

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Governance

Your Board intends to adopt the Wates Principles on Corporate Governance.

Why? Members have called for us to display best practice in governance and as the Wates Principles emphasise the importance of both purpose and stakeholder engagement, I believe they are the best fit for Nominet.

Many members (and representatives of UK Government) have asked me whether I intend to change Nominet's governance. Given the obvious interest, I think it is worthwhile to consider whether the current arrangements are a good fit for today's world. We would need to look carefully at what changes would improve our governance and gain the support of members.

If in the future we have a proposal for change, then it will be for us all as members of Nominet to decide the company's governance. Our constitution is quite clear. We need a super-majority to make any substantive change.

That time is not now; in my view future governance is a matter best tackled when trust between Nominet and its members has been restored. I hope the commitments set out will be the first step in that direction.

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Thank you for showing enough interest in your Nominet membership to read this far. I'd be delighted and honoured to Chair Nominet through the agenda set out above, which I believe moves us forward into a new era. If you agree, you can vote for me, and if you don't like what I've said you can vote against.

My one plea is please vote! A membership organisation like Nominet can only thrive with active members with varying opinions.

Finally, I'd like to thank the rest of the Board and the Executive for working diligently to re-focus Nominet in a way that I hope will restore members' trust in the company.

ANDY GREEN CBE | CHAIR, NOMINET

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